


LOCAL JOB LISTINGS.

Best Local Real Estate

[→ SEARCH](#)
[→ FIND A BUSINESS](#)

Search

[Back To Your Search Results](#) | [Search Again](#)
The Star-Ledger
[Click here to subscribe!](#)

» More From The Star Ledger

Private accounts, public disaster

Sunday, January 09, 2005

BY JON S. CORZINE

President Bush has yet to provide specific details about his plan for changing Social Security, but he has said often enough that he is likely to use a blueprint developed about three years ago by his hand-picked Social Security Commission. That blueprint must be rejected. It's a blueprint that calls for deep cuts in guaranteed benefits and would lead to a massive and irresponsible increase in debt. It takes the security out of Social Security.

Social Security is based on the best of American values. It promises all Americans that if they work hard, pay taxes and play by the rules, they will be able to retire and live in dignity. Social Security is not a handout. It's an earned benefit that promotes and rewards work. Social Security guarantees that regardless of the state of the economy or the stock market, every contributing American will have a basic level of financial security. The Bush privatization plan undermines that guarantee.

By changing the formula for calculating benefits, the Bush commission's plan would impose steep cuts. According to the Congressional Budget Office, which is a nonpartisan official scorekeeper, the Bush plan's cuts would be about 25 percent for many current workers. In the future, cuts could exceed 45 percent. These figures include the projected proceeds from privatized accounts.

The Bush cuts would apply to all retirees, even those who choose not to invest in privatized accounts. Those who do invest in these accounts would be hit twice -- first with a cut in their basic guaranteed benefit, and second with a new, added tax on their account when they retire. That tax could wipe out most, or even all, of their account, depending on actual returns. In any case, although the plan does not explicitly raise the retirement age, its cuts almost certainly would force many Americans to delay their retirement, in order to build up more assets.

Even without these cuts, Social Security's guarantee ensures only a basic existence. Today, the average Social Security benefit is about \$950 per month, or \$11,500 a year. For women, the average benefit is about \$825 per month, or less than \$10,000 annually. For most seniors, especially those living in high-cost areas like New Jersey, that's hardly enough to maintain even a basic standard of living.

MORE SEARCHES

Classifieds

- » [Jobs](#)
- » [Autos](#)
- » [Real Estate](#)
- » [All Classifieds](#)

Death Notices & Obituaries

- » [Death Notices & Guest Books](#)
- » [News Obituaries](#)

Local Businesses

- » [Find A Business](#)

Entertainment

- » [Movies](#)
- » [Music](#)
- » [Arts & Events](#)
- » [Dining & Bars](#)

[▶ SEND THIS PAGE](#)

- » [Cool contests & giveaways!](#)
- » [Shopping: Stores & Yellow Pages](#)
- » [Fun Guide: Things to do in NJ](#)
- » [Autos: Free price quote on new vehicles](#)


 » [Advertise With Us](#)

Some argue that we need deep cuts in Social Security benefits to save the program. But the numbers prove that's wrong. Over the next 75 years, the entire Social Security shortfall represents about 0.4 percent of our gross domestic product. By contrast, the cost of President Bush's tax cuts, if made permanent, would be 2 percent of GDP. In other words, the tax cuts will cost about five times the entire Social Security shortfall. The truth is, we have the resources to meet our obligations and honor our promises. It's simply a matter of setting priorities and maintaining fiscal discipline.

To be clear, I am not opposed to the use of private accounts to save for retirement. To the contrary, it is essential that Americans save privately for their retirement, and that is why I strongly support providing tax subsidies for 401(k)s and IRAs. But private accounts, by their nature, cannot provide the same level of security as Social Security. When investments tumble, health declines and all else fails, Social Security benefits are there -- guaranteed -- as a final lifeline for seniors.

I am especially concerned that President Bush apparently plans to finance privatized accounts by incurring massive amounts of debt. In the first 10 years, that debt is likely to exceed \$2 trillion. But that's just the beginning. In the second 10 years, for example, debt could increase by more than \$4 trillion. To provide some perspective, that's almost as much as our entire publicly held debt today, which totals about \$4.4 trillion.

Such massive increases in debt would impose a huge burden on young Americans and our nation's future. They also would threaten to raise interest rates and undermine economic growth in the short-term. As a former bond trader, I find it almost incomprehensible that the president would want to increase debt so dramatically when we already are suffering from the largest deficit in our nation's history. This kind of fiscal recklessness is simply not sustainable.

Many privatization advocates rest their case on claims that seniors will enjoy better returns. However, such claims are misleading. First, they generally overlook the costs of financing the accounts -- the higher interest costs that future taxpayers will be forced to bear. Also, privatizers typically ignore the fact that Social Security, in addition to its role in protecting retirement security, also includes insurance for workers who become disabled and for survivors of workers who die prematurely.

Perhaps more fundamentally, privatization proponents generally fail to adjust projected returns for the added risk of investing in equities, as virtually all economists agree is necessary for a fair comparison.

Having earned my living as a trader and investment banker for 30 years, and having run one of America's largest financial companies, I understand something about markets. I can assure you it is pure folly to assume that privatized accounts will always increase in value and will be at a high-water mark at the moment when an individual retires. The truth is, markets go up, down and sideways -- sometimes for many years. One thing they never do is provide guaranteed returns or protection against both inflation and the risk of outliving your savings -- only Social Security does that.

There is another problem with privatized accounts: They are very costly to administer. One reason is that many accounts are quite small, so a significant share of any gains is eaten up by management fees. A University of Chicago study found that fees would reduce benefits by 20 percent. By contrast, Social Security's administrative costs are minimal, about one-half of one percent.

Social Security at its most basic level provides a simple guarantee: Work hard and contribute now, and your financial future will be secure. Proposals to cut guaranteed benefits in favor of individual bets on the market strike at the very

core of Social Security's promise. Those who disagree with that promise have a right to call for the program's repeal. But they shouldn't pretend that privatization promises security for America's seniors. It doesn't.

Jon S. Corzine, former chairman and CEO of the investment firm Goldman Sachs, is a Democratic U.S. senator from New Jersey and a member of the Senate banking committee. He is running for governor this year.

The Best Local Classifieds: [Jobs](#) | [Autos](#) | [Real Estate](#) | [Place An Ad](#)



Special Home Delivery Offers!
[The Star-Ledger](#) | [The Times, Trenton](#) | [The Jersey Journal](#)
[Gloucester Co. Times](#) | [The Express-Times](#)
[Bridgeton News](#) | [Today's Sunbeam](#)

[About Us](#) | [Help/Feedback](#) | [Advertise With Us](#)

Use of this site constitutes acceptance of our [User Agreement](#). Please read our [Privacy Policy](#).
© 2005 [NJ.com](#). All Rights Reserved.



Home	News+Biz	Local	Sports	Forums+Chat	Cams+Radio	Living	Entertainment	CLASSIFIEDS
<div><i>Get The Best Local...</i> Jobs Autos Real Estate All Classifieds Place An Ad</div>								